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panorama

July 2025



## India's financial sector remains broadly resilient, barring certain limited pockets of stress

- The banking sector's Gross Non-Performing Assets (GNPA) ratio fell to a multi-decade low of 2.3% in Mar'25
- Private sector banks have witnessed a notable deterioration in asset quality in the unsecured retail segment
- Stressed assets in microfinance have risen significantly since March 2024
- Borrower quality in small-ticket loans remains a concern, despite improvement in overall consumer risk profiles
- The asset quality of the MSME sector has improved, with declines in both GNPA and SMA-2 ratios
- Credit to NBFCs and retail loans will drive early bank credit growth, backed by healthy bank balance sheets



## Healthy monsoon progress bodes well for both the inflation outlook and the rural sector

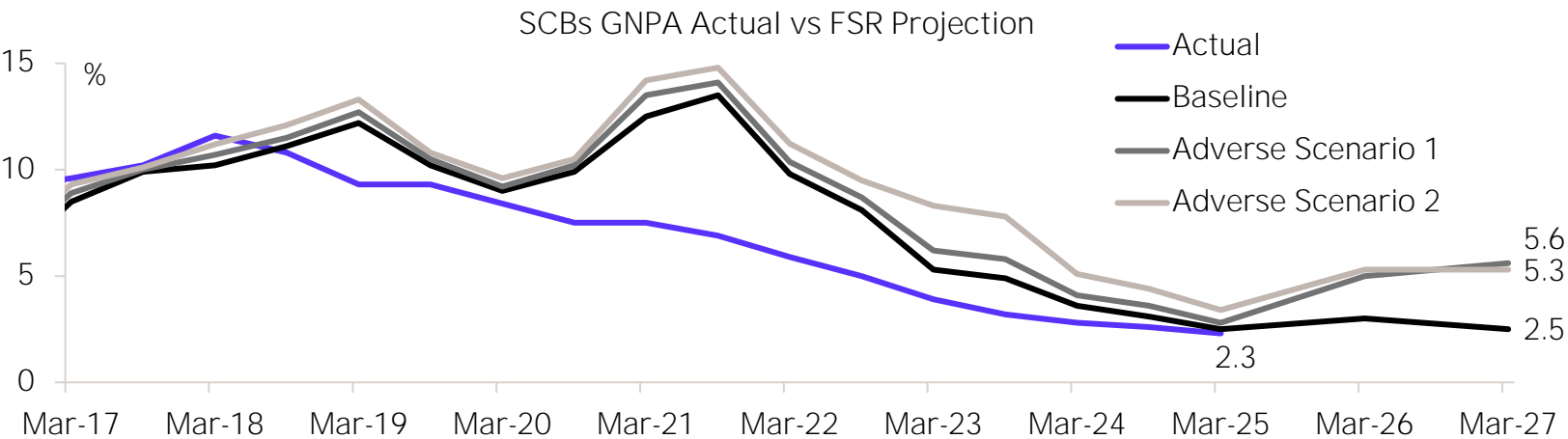
- Monsoon season has continued to progress at a healthy pace, barring the brief slowdown in early June
- Distribution has been uneven, with the East & North-East region facing deficient rainfall
- However, the reservoir storage position remains comfortable across regions
- Kharif sowing is also progressing at a healthy pace, exceeding last year's levels across most crops
- FCI wheat stocks have recovered post-procurement, while rice stocks remain well above norms
- We expect CPI inflation to remain below the RBI's June 2025 projections
- Assuming a normal monsoon, we expect the agriculture sector to post healthy growth

# Financial Stability



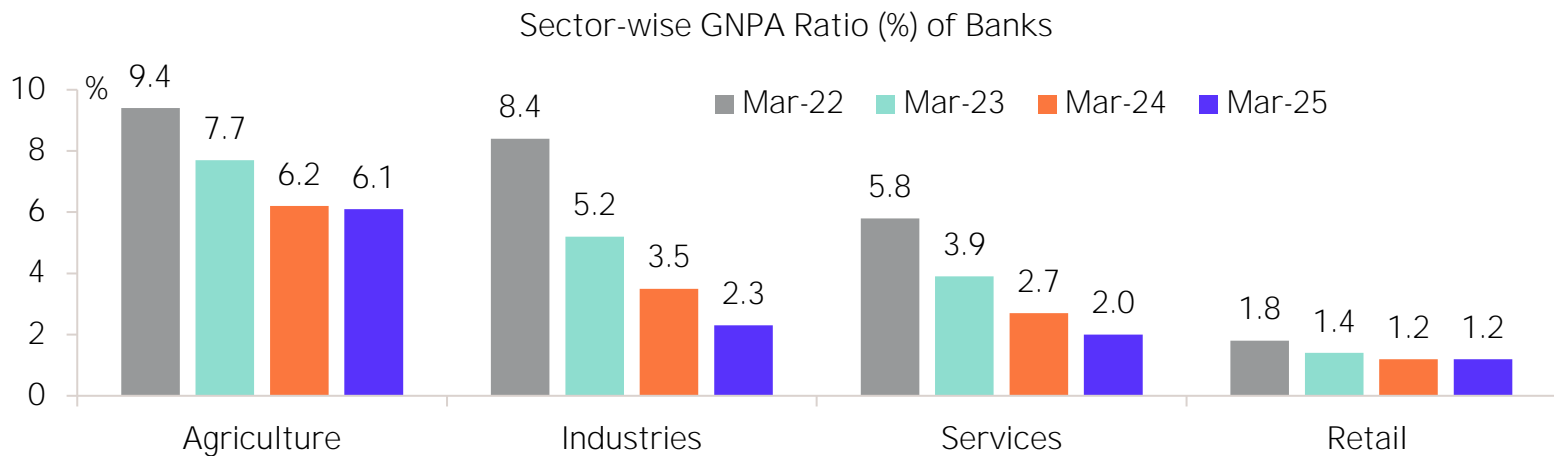
# Banks' asset quality continues to improve with GNPA at a multi-decade low

RBI's stress tests project the GNPA ratio to rise marginally to 2.5% by Mar'27 from 2.3% in Mar'25



The banking sector's Gross Non-Performing Assets (GNPA) ratio fell to a multi-decade low of 2.3% in March 2025, signalling continued improvement in asset quality

RBI's stress tests suggest that the GNPA ratio could rise to 2.5% by March 2025 under the baseline scenario and to 5.3–5.6% under adverse scenarios

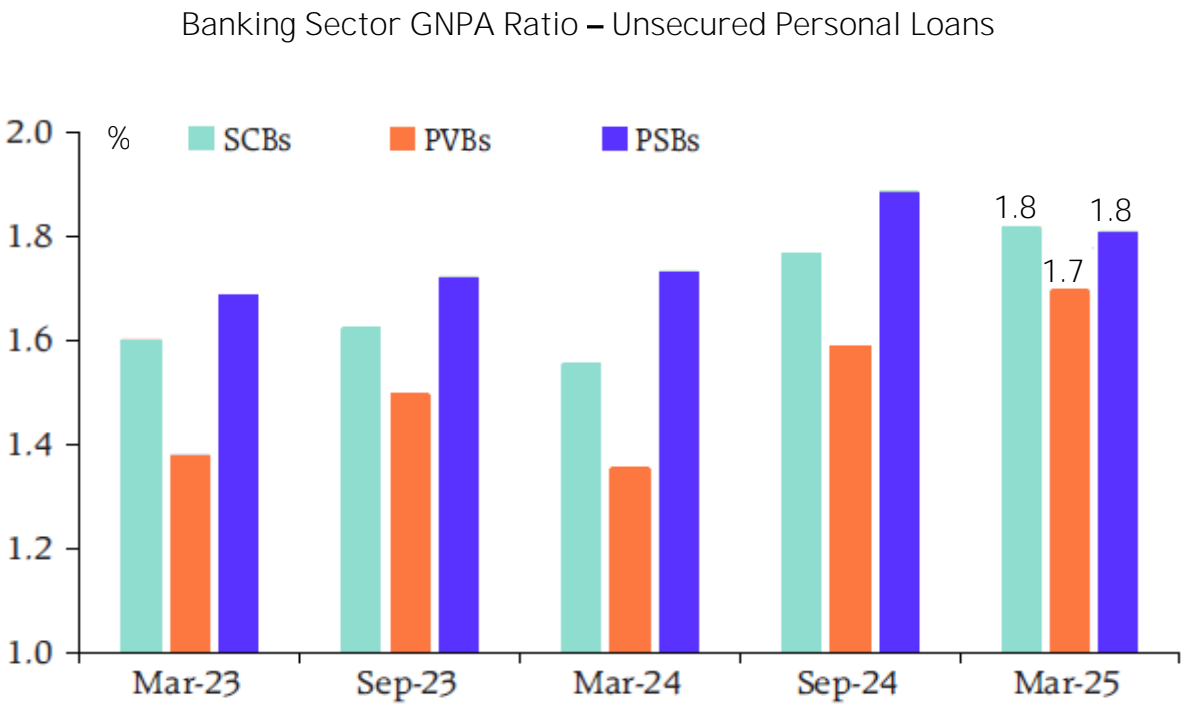
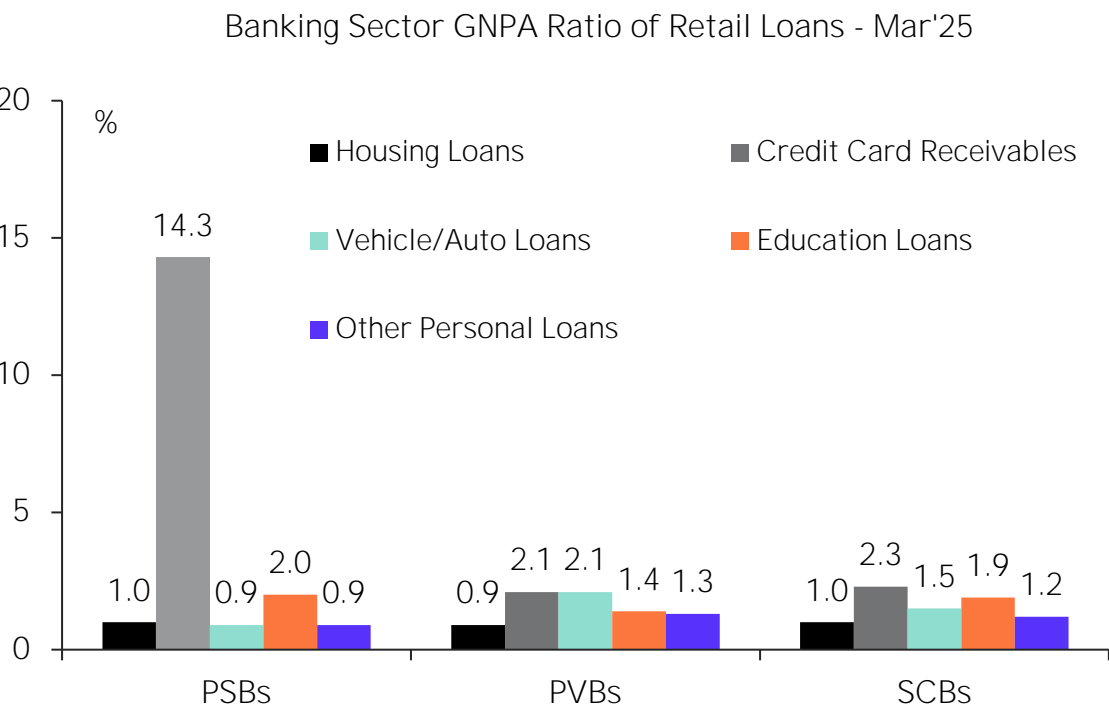


Asset quality improved significantly in industries and services, but remained largely unchanged in agriculture and retail in FY25

# Public sector banks continue to face elevated stress in credit card loans

Private sector banks witnessed a notable deterioration in asset quality in the unsecured retail segment over the past year

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The GNPA ratio for credit card loans remains elevated, driven by stress in public sector banks’ portfolios

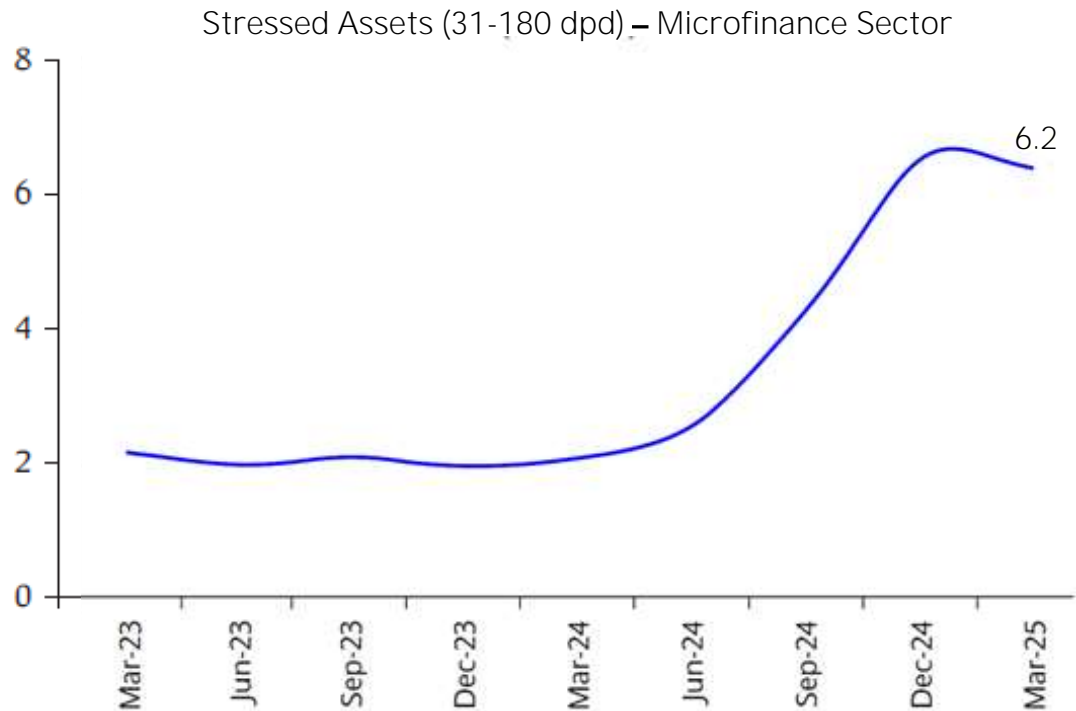
The GNPA ratios for education and vehicle loans are also higher than the broader retail segment

Unsecured retail lending constitutes 25.0% of total retail loans and 8.3% of overall gross advances

GNPA in unsecured retail loans stood at 1.8% in March 2025, with notable deterioration observed in private banks over the past year

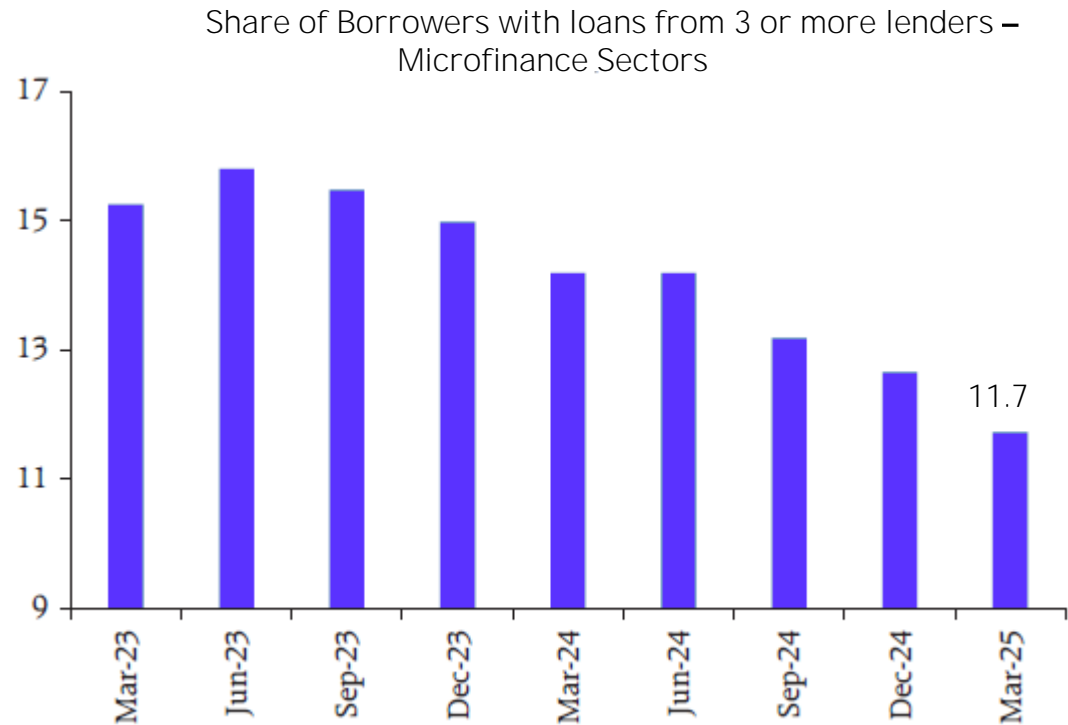
# Stressed assets in microfinance have risen significantly since March 2024

However, the share of borrowers with loans from three or more lenders is declining



The ratio of stressed assets in the microfinance sector (31-180 days past due) increased from 4.3% in **Sep'24** to 6.2% in **Mar'25**

The banking sector also witnessed an increase in stress in its microfinance loan book, with the ratio rising from 4.7% in **Sep'24** to 6.5% in **Mar'25**



However, the share of borrowers with loans from three or more lenders is declining

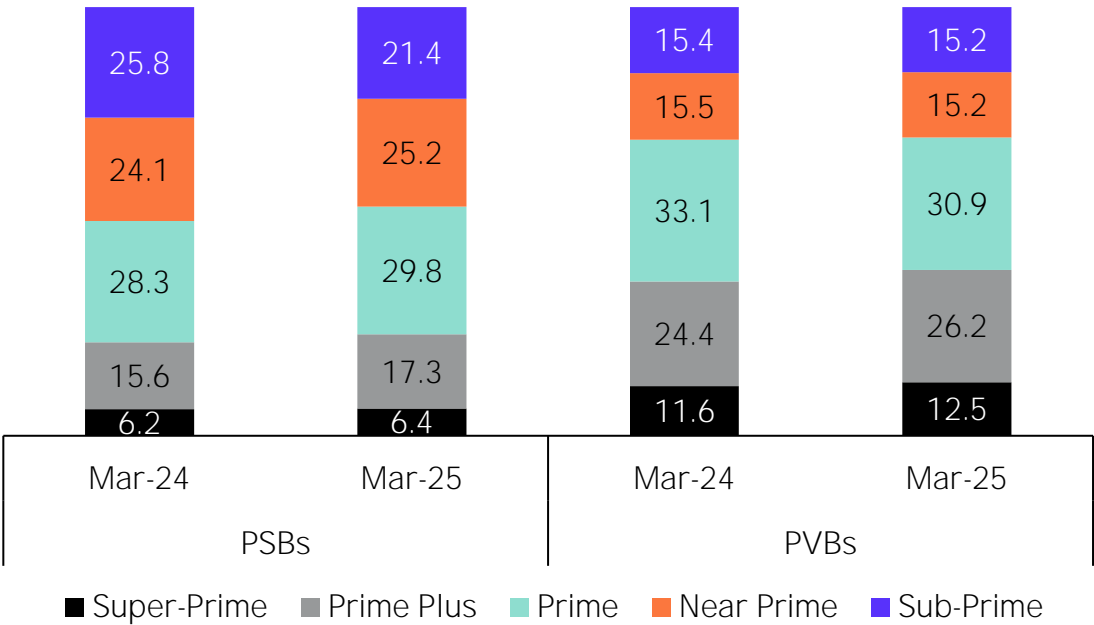
This may be because of tighter risk controls in the microfinance sector in response to rising stress



# Borrower quality in small-ticket loans remains a concern

However, the risk profile of borrowers in the overall consumer segment has improved over the past year

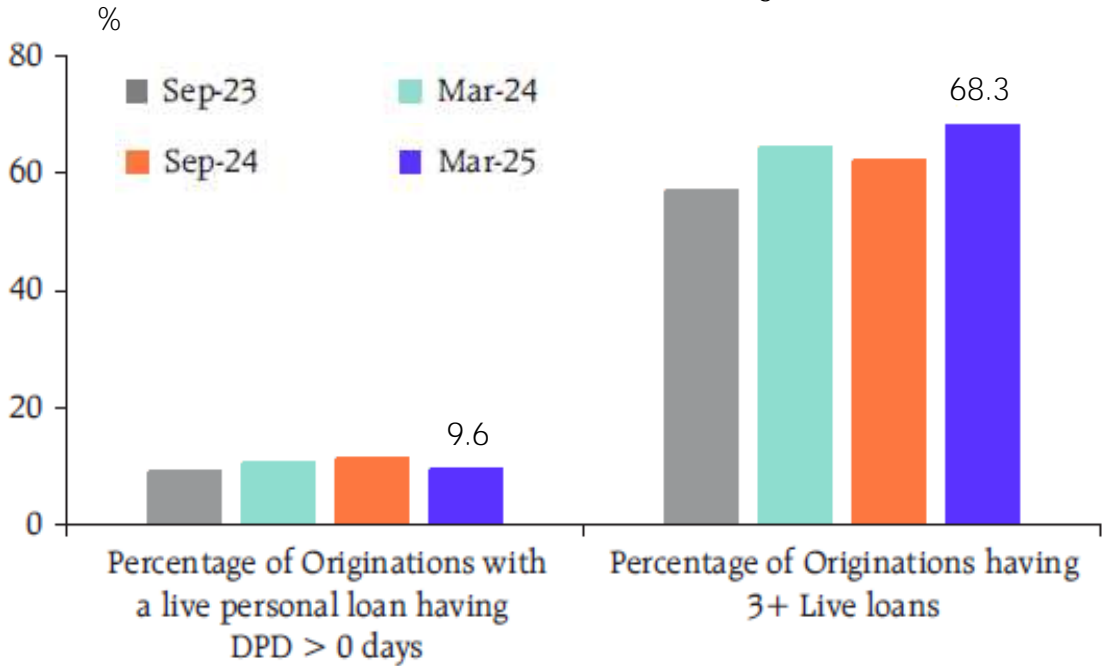
Share of Borrowers by Risk Tier in Cosumer Segment



The share of borrowers rated prime plus and above increased for both PSBs and PVBs

However, PSBs have a higher share of sub-prime borrowers than private sector banks

Personal Loan Below Rs 50,000 - Origination

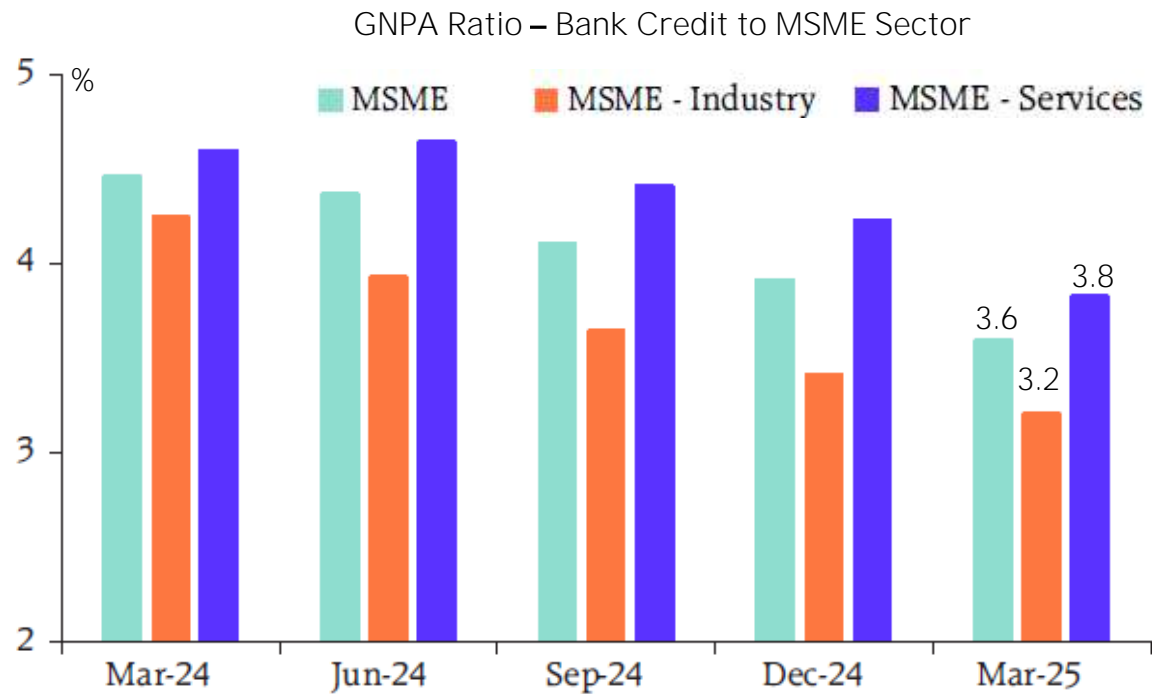


NBFCs (including HFCs and FinTech) account for 84.3% of personal loans below Rs 50,000

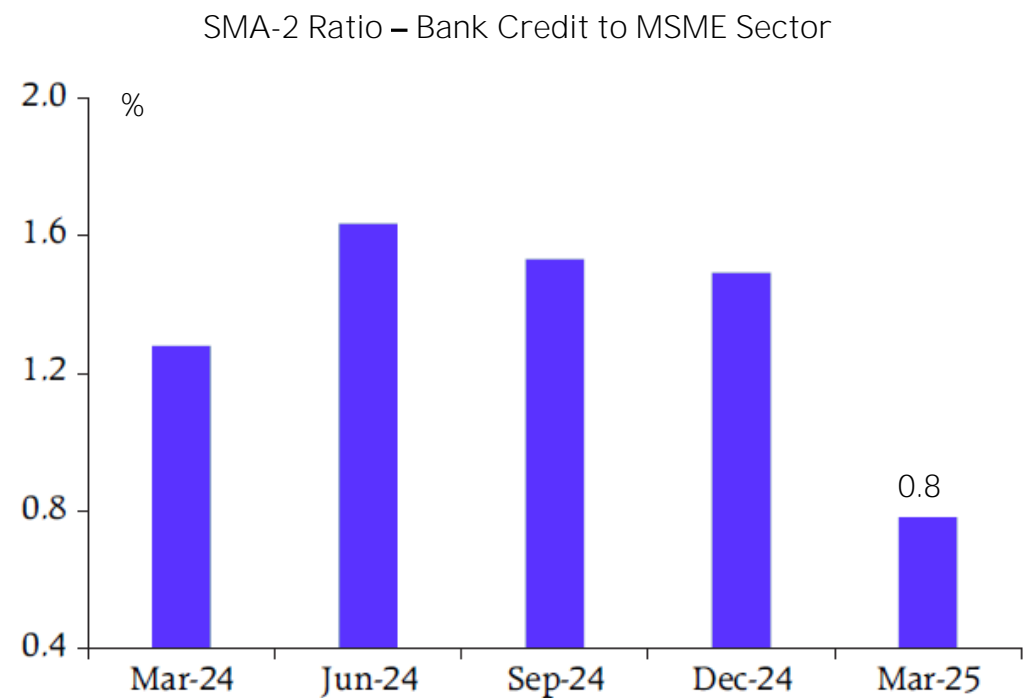
Around 10% of borrowers had an overdue personal loan, and 68.3% of recent borrowers had over three active loans at origination in March 2025

# Asset quality of the MSME sector has improved over the past year

GNPA ratio has declined across both industry and services segments, alongside an improvement in the SMA-2 ratio



The GNPA ratio of the MSME portfolio of SCBs declined from 4.5% in **Mar**'24 to 3.6% by end-**Mar**'25



The improvement in asset quality is also reflected in the sharp decline in the SMA-2 ratio (loans overdue by 61-90 days, indicating early signs of stress)



# Healthy bank balance sheets to support recovery in credit demand

Bank credit to NBFCs and retail loans is expected to drive the early recovery in credit growth

Rs Bn	Outstanding (as of May 30, 2025)	Financial Year to Date (till May 30, 2025)			
		2025-26		2024-25	
		Δ	YoY (%)	Δ	YoY (%)
Total Credit	1,78,180	320	9.8%	3,543	16.2%
Industry	38,691	(560)	4.9%	512	8.9%
<i>Micro &amp; Small</i>	8,371	454	13.7%	101	15.5%
<i>Medium</i>	3,659	54	16.8%	94	15.5%
<i>Large</i>	26,786	(1,064)	1.0%	308	7.1%
Services	50,182	(758)	9.4%	973	20.7%
<i>Trade</i>	11,674	(194)	10.7%	292	17.7%
<i>NBFCs</i>	15,626	(735)	-0.3%	200	16.0%
Retail Credit	57,481	1,377	13.7%	1,358	19.3%
<i>Housing</i>	27,428	537	13.8%	773	19.9%
<i>Personal Loans &amp; LAP</i>	15,119	184	8.3%	183	17.1%
<i>Vehicle Loans</i>	6,378	150	8.7%	134	18.4%
Agri & Allied Activities	22,988	117	7.5%	678	21.6%

Bank credit growth has slowed to 9.8% YoY (as of May 2025), down from 16.2% a year earlier

The slowdown reflects the impact of the RBI's regulatory tightening and strained liquidity conditions in FY25

However, the RBI has recently eased regulatory measures, cut interest rates, and infused liquidity into the system

This is likely to support a revival in credit growth

We expect a revival in bank loans to NBFCs in FY26, as the RBI has reduced the risk weight on the exposure of banks to NBFCs

Retail credit is also expected to recover, driven by affordable housing, personal loans, LAP and vehicle loans

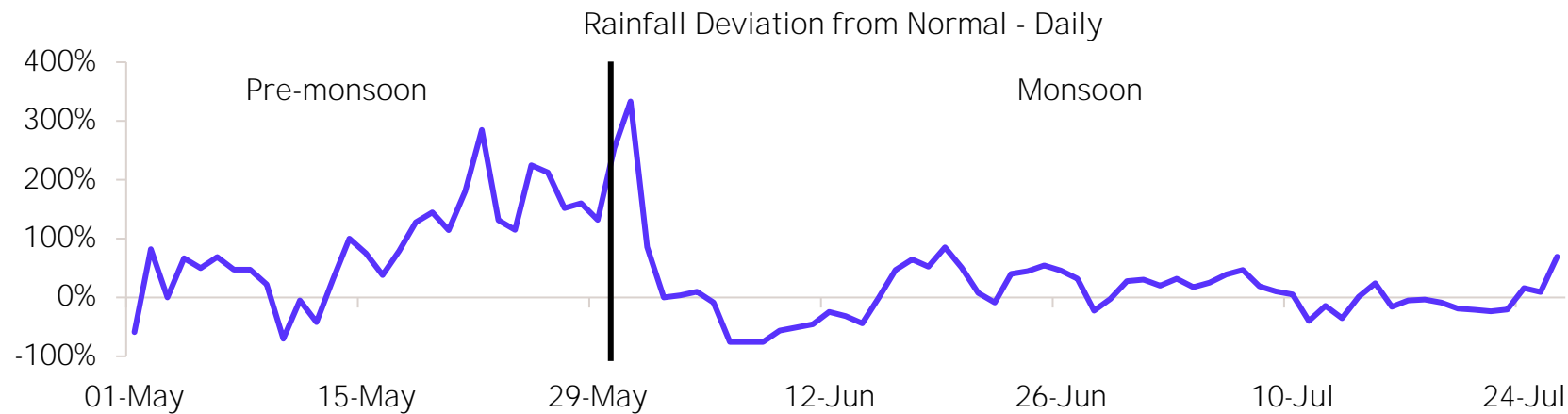
Source: RBI, 360 ONE Asset Research

# Monsoon, Rural & Agri



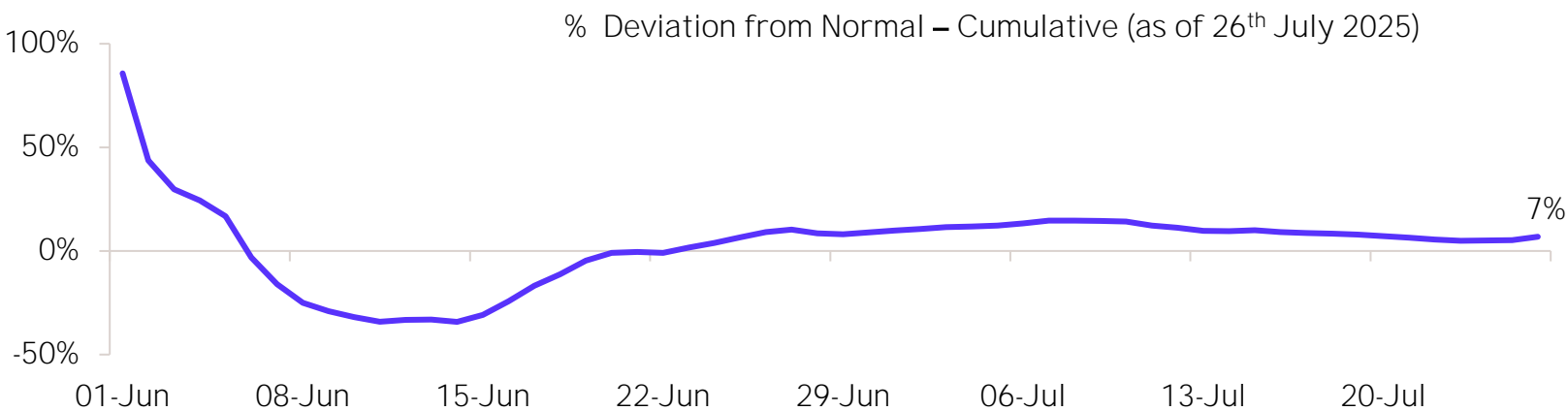
# Monsoon progressing at a healthy pace

India recorded heavy pre-monsoon rainfall in May 2025



India recorded heavy pre-monsoon rainfall in the second half of May 2025

The monsoon season has continued to progress at a healthy pace, barring the brief slowdown in early June

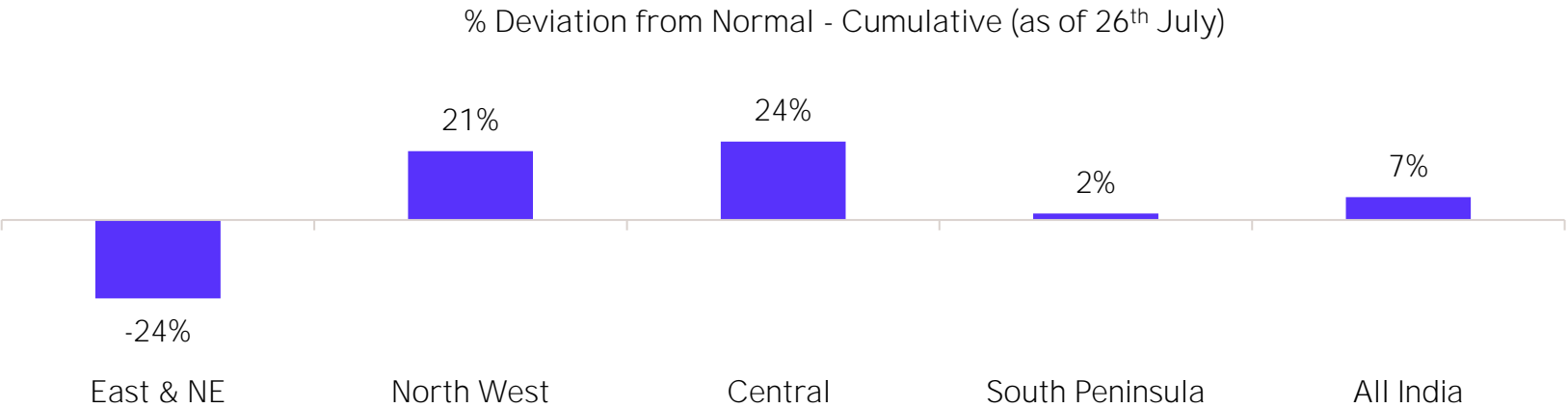


The monsoon season started with a deficit in the first half of June, but gradually picked up in the second half

As of 26<sup>th</sup> July 2025, monsoon stood at 7% above the long-period average

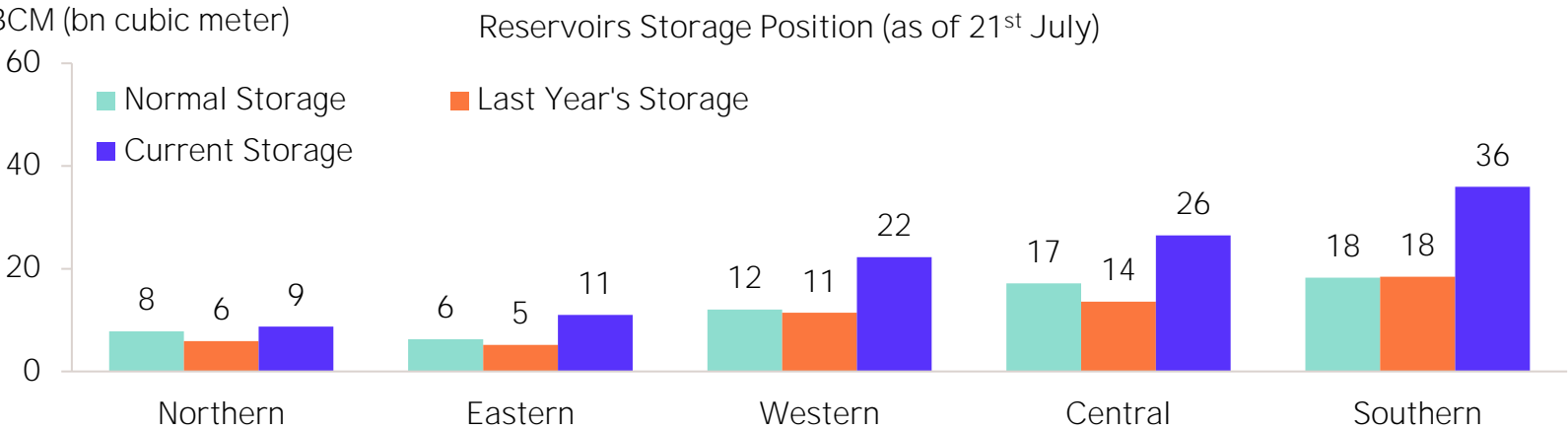
# Regional distribution of monsoon has been uneven

However, the reservoir storage position remains comfortable across regions



The 'East & North-East' region has witnessed deficient rainfall as of 26<sup>th</sup> July

Rainfall over North-West and Central India has been significantly above average



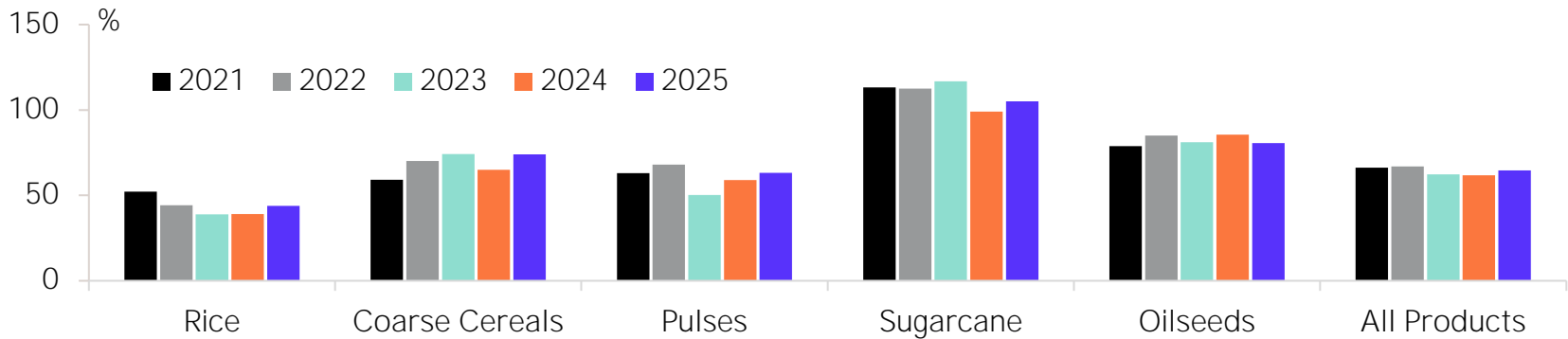
Reservoir storage levels across India exceed both last **year's** levels and the normal storage for this period

Source: CMIE, 360 ONE Asset Research

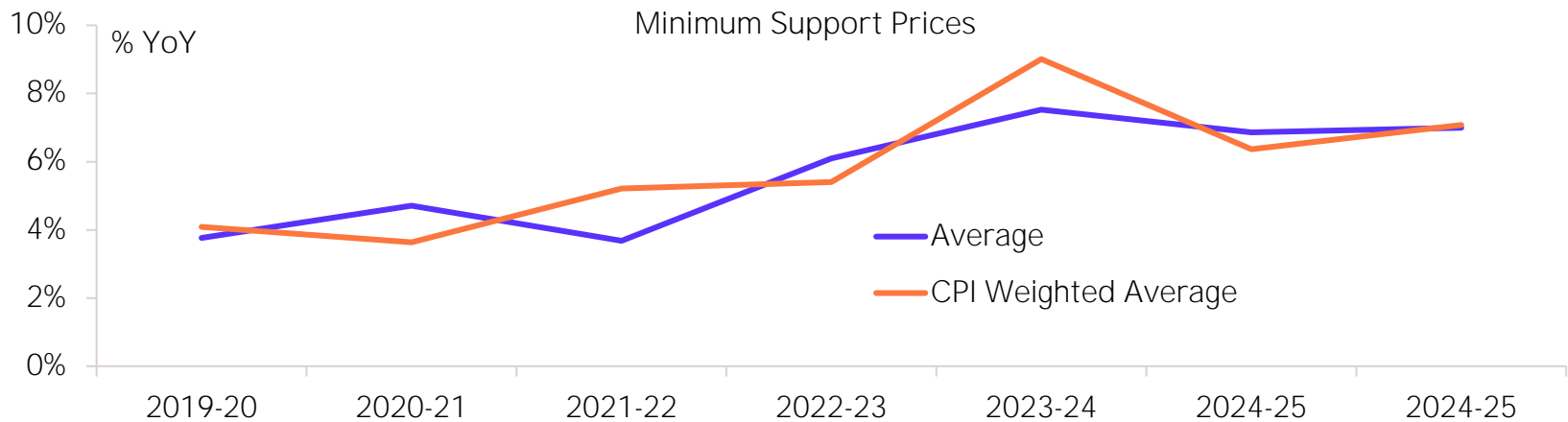
# Kharif sowing advancing at a healthy pace

Increase in minimum support prices (MSP) for Kharif crops is not expected to be inflationary

Kharif Actual Area Sown % of Normal Sown Area (as of 18<sup>th</sup> July)



Kharif sowing for most crops so far has exceeded last **year's** levels, with overall progress surpassing each of the past two years



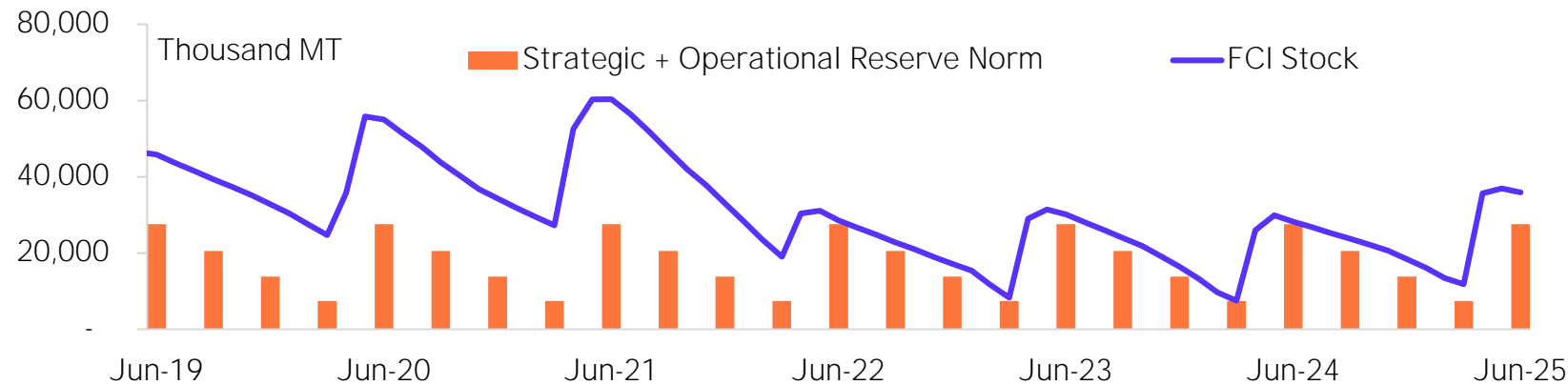
The government has ensured a minimum 50% return over the cost of production for all crops under the Minimum Support Price (MSP) policy

We do not expect the MSP hikes to be inflationary

# Wheat stock with FCI has recovered after the latest procurement season

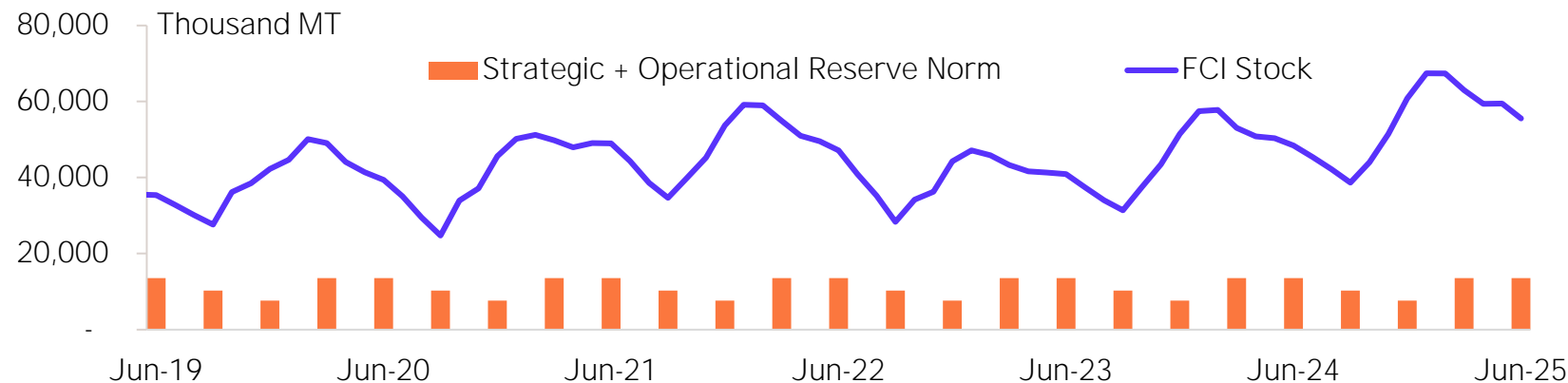
Rice stock with the FCI continues to remain well above the prescribed buffer norms

Wheat



Wheat stocks with the FCI in May 2025 are higher than a year ago but remain well below the levels recorded before 2022

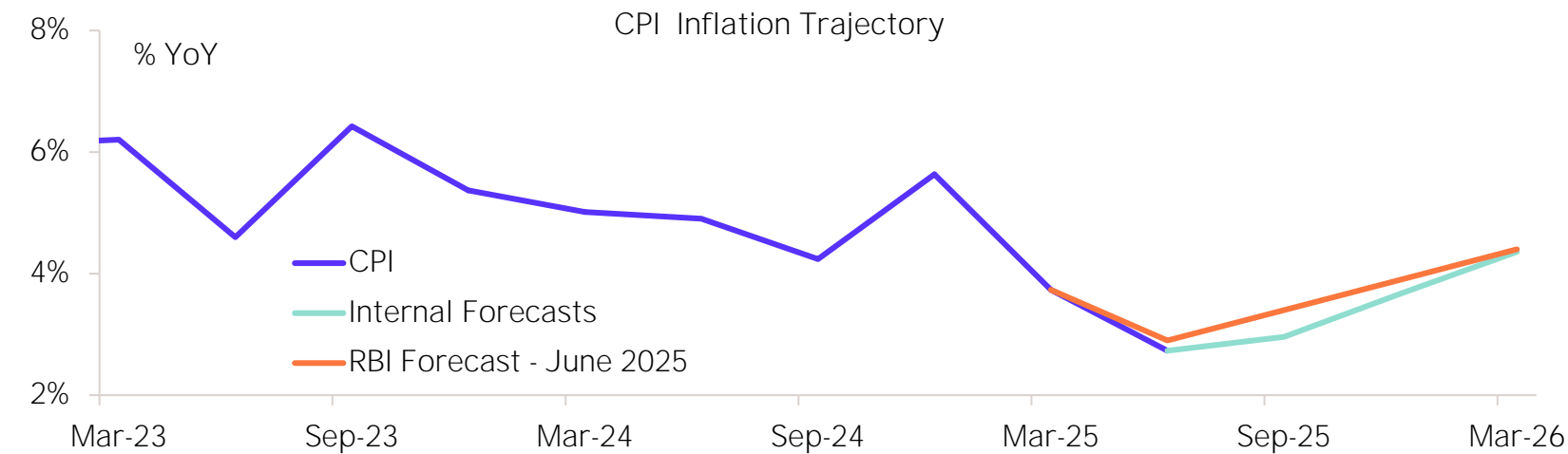
Rice



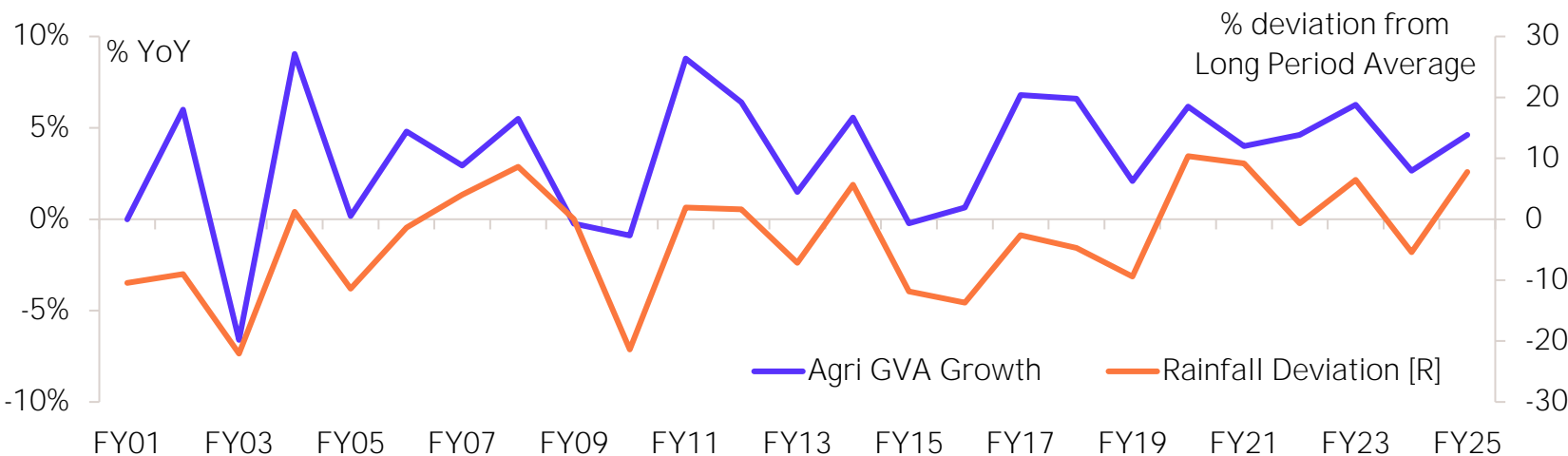
FCI's wheat stocks have remained well above the buffer norms, enhancing the government's capacity to intervene in the market through open market sales to curb price increases

# Healthy monsoon and robust sowing to keep food inflation contained

Agricultural sector growth is also expected to remain strong, assuming a normal monsoon season



We expect CPI inflation to remain below the RBI's June 2025 projections, creating room for further rate cuts if growth risks intensify



Agriculture sector growth has a strong correlation with the monsoon rainfall

Assuming a normal monsoon, we expect the agriculture sector to post healthy growth, which would, in turn, support the broader rural economy

Source: RBI, CMIE, 360 ONE Asset Research



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